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SUBJECT: BLUE LANTERN OUTREACH TO CANADA: DISCUSSIONS WITH
EMBASSY AND CONSULATES, GOC OFFICIALS, AND INDUSTRY

REF: 2006 BLUE LANTERN GUIDEBOOK

STATE 00120099 001.2 OF 004

1. (SBU) Summary: Representatives from the Bureau of Political-Military Affairs, Office of Defense Trade Controls Compliance (PM/DTCC) met October 13-16 with Mission Canada staff in Montreal, Ottawa, and Toronto, GOC officials, and local defense industry to discuss the Blue Lantern end-use monitoring program and related defense trade compliance issues. PM/DTCC reps briefed embassy and consular staff on implementing the Blue Lantern program at post and shared results of a research project involving U.S. companies' use of the Canadian exemption to export defense articles to Canada. Preliminary results of the research indicate as many as 154 third party transfer violations involving U.S. defense articles exported under the Canadian exemption; DTCC team agreed to further consultations with ICE attach office as additional results are obtained. Team also conducted a Blue Lantern site visit in Montreal to Unisource Technology, Inc., a private company which provides ITAR-controlled defense articles to National Defense Canada. Washington believes the outreach visit achieved goals of improving GOC and industry understanding of U.S. export control laws and regulations, strengthening country team's knowledge of Blue Lantern program, and enhancing DTCC's understanding of Canadian defense industry and GOC export/import and technology security procedures.

PURPOSE OF TRIP AND MEMBERS OF BLUE LANTERN TEAM

2. (U) Administered by the Office of Defense Trade Controls Compliance (PM/DTCC) and pursuant to the Arms Export Control Act (AECA), Blue Lantern is a global program designed to verify the end-use, end-users, and final disposition of U.S. defense articles, technology and services subject to the International Traffic in Arms Regulations (ITAR). This visit was part of ongoing PM/DTCC's efforts to improve the effectiveness of Blue Lantern through outreach visits with embassies, foreign industry, and host governments. The DTCC Blue

Lantern team consisted of Research and Analysis Division (RAD) Chief Ed Peartree and PM/DTCC/RAD Compliance Specialists Kyle Ballard and Tim Mazzarelli.

MONTREAL CONSULATE TEAM BRIEF AND INDUSTRY SITE VISIT

13. (U) The Blue Lantern team briefed Political Officer Peter Martin, Assistant ICE attach David Denton, and Foreign Commercial Specialist Gina Bento on the Department's program for end-use monitoring of defense articles and services, guidelines for implementing the program at post, and the importance of preventing the unauthorized re-export and retransfer of U.S. defense articles. Team also briefed participants on its research project involving U.S. companies' use of the Canadian exemption and Department's concern that the exemption may be abused by certain parties to facilitate illegal exports.

14. (U) Embassy Ottawa Economic Officer Lori Balbi and Peter Martin accompanied Blue Lantern team on a site visit to Unisource Technology, Inc. (Unisource). Team met with Unisource President & CEO Rudy Rutenberg, Executive Director Bruce Rutenberg, and Contracts Administration Director Cathy Jones. Unisource staff provided background information on export requests and business operations, as well as Unisource's physical security measures

STATE 00120099 002.2 OF 004

for handling sensitive U.S. defense articles. Based on verification of order and documentation establishing Canadian Armed Forces as final end user and evidence of a long standing business relationship with National Defense Canada, team was confident that Unisource is a reliable recipient of USML items.

OTTAWA CONSULATE TEAM AND GOC OFFICIALS BRIEF

15. (U) Blue Lantern team PM/DTCC reps briefed Senior Case Officer, Controlled Goods Directorate (CGD), Public Works and Government Services Canada, Serge Poirier and colleague Mary Hyde on the Blue Lantern end-use monitoring program. Team emphasized that Blue Lantern is not an investigation or law enforcement activity but rather a cooperative program designed to improve security and integrity of defense trade relationship between U.S. and international partners.

6 (U) Poirier in turn provided a detailed accounting of the CGD's compliance program including Canada's SOP for registration of companies dealing in strategic goods. According to Poirier, companies go through a general vetting process which assesses a firm's history and ownership. Registration lapses after a five year period at which time the company must re-justify/re-apply. During the five year registration period companies must maintain all business records and visitation logs, must internally vet all employees, and are subject to inspection by the CGD. Poirier noted that all registered companies will be inspected at least once during the five year registration period. Should inspections reveal noncompliance, company registration can be suspended or revoked. Problems that reveal possible criminal violations are referred to the Royal Canadian Mounted Police (RCMP).

17. (SBU) Blue Lantern team met with ICE attach Craig Healy, Deputy ICE attach Bobby Fuentes, Assistant

ICE attach Spencer Schneider, ATF attach Bob Thomas, and FBI Legal Attach Bob Doherty to discuss Blue Lantern end-use monitoring and related defense trade issues. ICE attach office was familiar with the Blue Lantern program and is highly focused on export-related cases. Healey noted that there is strong cooperation at the working level with Canadian Border Security Agency (CBSA) and the RCMP; less so at senior levels where legal complications and obstacles to joint cooperation arise.

18. (SBU) Canadian export controls enforcement has traditionally been viewed mainly as a regulatory issue, rather than as a criminal enforcement matter; this according to Healy, is gradually changing. CBSA is Canada's Customs agency but has limited enforcement capability; RCMP is the body that investigates potential criminal cases. During the meeting it was noted that an obstacle in the U.S.-CA law enforcement relationship is that RCMP has a tendency to over-classify information, creating barriers to information exchange. Furthermore, Canadian laws on privacy inhibit the free exchange of information regarding Canadian citizens, even among GOC agencies. Healy noted, however, that with regard to Blue Lantern requests information seems to flow more freely. ICE will approach CBSA or RCMP to find out what they might know about a Canadian company (subject of a Blue Lantern check) and/or to share Department's concerns.

19. (SBU) PM/DTCC team met with CBSA Counterproliferation Section Manager George Webb, RCMP Staff Sergeant, Tim Ranger, and ICE attaches. Webb and Ranger described their respective agencies' missions and discussed shared agency goals. Webb indicated that destination of an export is the primary factor scrutinized by CBSA, and that they also consider the track record and reputation of exporters. The agency does not have discretionary authority to ban a problematic exporter (Comment: DTCC can place a company/entity under

STATE 00120099 003.2 OF 004

a "policy of denial" based on documented concerns, without criminal indictment or conviction) without a criminal conviction but can detain goods as long as the agency deems appropriate. The GOC is currently reviewing counterproliferation legislation that would further criminalize proliferation activity, and presumably expand their powers with regard to export investigations. Webb also noted that CBSA has an "alert" system similar to DTCC's Watch List that flags potentially problematic entities.

110. (SBU) DTCC discussed its research findings from export filings citing the Canadian exemption and noted that there were 154 instances of possible exports (or re-exports) to third countries (Comment: exports under the Canadian exemption are for end-use in Canada only). Webb indicated that CBSA could put an alert on the companies involved into their system. Webb and Ranger noted that traditionally, both CBSA and RCMP have been focused on in-bound shipments and are only now becoming more focused on exports. ICE attach Craig Healy suggested that a further avenue of U.S.-Canada cooperation might include the creation of an international task force that would bring Canadian-U.S. DOJ prosecutors together to create pressure at higher levels in support of export enforcement. DTCC indicated that it would pass this information to the U.S. DOJ, National Coordinator for Export Enforcement Cases, Steve Pelak.

¶11. (U) Blue Lantern team also met with Canadian Department of Foreign Affairs and International Trade (DFAIT) Senior Export Control Officer Lynne Sabatino to discuss the respective features of Canadian and U.S. export controls. Sabatino exhibited extensive knowledge of ITAR regulations and provided a detailed description of the Canadian export control review process. Sabatino explained that DFAIT export controls cover both munitions and dual-use commodities, and consider Canadian foreign policy in addition to national security and international regimes when making export decisions. Sabatino noted that all license permit applications are reviewed by technical experts who pre-screen authorization requests for licensing permit officers. She also explained procedural features that are incorporated into the permit process which act to safeguard transactions involving USML items. For example, applications for permits have fields for "country of manufacture" and "U.S. content". If the end-items for export are listed as including any U.S. content, the system will automatically prompt the license permit officer to demonstrate compliance with U.S. law. In items that include USML, the applicant is required to obtain U.S. re-export authorization. The system, however, relies on the applicant for full disclosure. The improper re-export of USML (by either failing to note content or false declaration) thus is not only a violation of U.S. law but of Canadian law as well.

¶12. (U) Canada conducts "post audit" checks via their overseas Embassies. Pre-permit checks are conducted from Ottawa and consist mostly of background research and analysis. Audits are initiated based on a variety of factors including commodity sensitivity and destination and are conducted at the discretion of the permit officer. Sabatino stressed that DFAIT is committed to maintaining the Canadian exemption and that Canada applies appropriate security and control measures to ensure the safe handling of USML.

TORONTO CONSULATE TEAM BRIEF

¶13. (SBU) In Toronto, Blue Lantern team met with Economic and Political Section Chief, Lee MacTaggart and ICE attach John Ward. MacTaggart and Ward emphasized that Toronto - given its status as a business center and ethnically diverse community - is where the majority of export enforcement cases arise within the

STATE 00120099 004.2 OF 004

province.
They indicated that, due to equal opportunity laws in Canada, dual citizens are often not required to present themselves as such, making it difficult to monitor possible ITAR violations involving foreign nationals. MacTaggart also noted that Canadian companies commonly establish post office boxes in the United States through which they could receive shipments, further complicating ITAR enforcement.

¶14. (SBU) Ward echoed many of the sentiments expressed by ICE Ottawa indicating that at the working level, the relationship between U.S. law enforcement and the CBSA/RCMP is good but becomes less cooperative at higher levels. MacTaggart indicated that a possible avenue for better U.S.-CA enforcement cooperation is through DFAIT, as the agency's international trade component is the "center of gravity" given its strong interest in preserving positive U.S.-CA trade relations

and maintaining special status as it relates to the Canadian exemption. DTCC team briefed the preliminary results of Canadian exemption research project, which had been the basis for several recent Blue Lantern checks, including an unfavorable check in Toronto. MacTaggart requested information updates from Washington on final disposition of Blue Lantern cases so that Consulate team members can increase their own understanding of local exporters and possible companies of concern in the Toronto area.

¶15. (SBU) Comment: PM/DTCC Blue Lantern outreach team found high interest and strong cooperation from GOC officials and a motivated and well-informed Mission Canada team with respect to the conduct of Blue Lantern end-use monitoring. The visit also appears to have met the objectives of improving understanding of the Blue Lantern end-use monitoring program and USG munitions export laws and regulations. DTCC team agreed to further consultations with ICE attach office as additional results are obtained regarding the use of the Canadian exemption for license-free exports to Canada. Outreach visit achieved goals of improving industry's understanding of U.S. export control laws and regulations, strengthening country team's knowledge of Blue Lantern program, and enhancing DTCC's understanding of Canadian defense industry and GOC export/import and technology security procedures.

¶16. (U) DTCC would like to express its gratitude to Embassy Ottawa and Missions Montreal and Toronto, and especially control officer Lori Balbi for her assistance in arranging and executing this visit.
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